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August 27, 2001

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Magalie R. Salas, Esq.
Federal Communications Commission
Office of the Secretary
The Portals
445 12th St. S.W.
Room TWB 204
Washington, D.C. 20554

Re: CC Docket Nos. 00-218, 00-249, and 00-251

Dear Ms. Salas:

Enclosed for filing please find an original and three copies of WorldCom, Inc. and AT&T's Rebuttal Testimony, including a CD ROM containing supporting work papers, on pricing issues. An additional eight copies have been provided in a separate envelope to be delivered to the arbitrator. Finally, an extra copy is enclosed to be file-stamped and returned.

If you have any questions, please do not hesitate to call me at 202-639-6005. Thank you very much for your assistance with this matter.

Very truly yours,

Mark D. Schneider

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CERTIFICATE OF SERVICE

I do hereby certify that true and accurate copies of the foregoing AT&T and WorldCom's Rebuttal Testimony on pricing issues were delivered this 27th day of August, 2001, by federal express and regular mail to:

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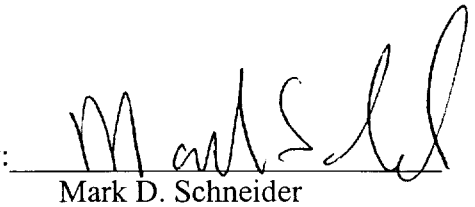
By: 
Mark D. Schneider

PUBLIC VERSION

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the Matter of Petition of WorldCom, Inc. Pursuant To Section 252 (e)(5) of the Communications Act for Expedited Preemption of the Jurisdiction of the Virginia State Corporation Commission Regarding Interconnection Disputes with Verizon Virginia, Inc., and for Expedited Arbitration	)	CC Docket No. 00-218
In the Matter of Petition of Cox Virginia Telecom, Inc. Pursuant to Section 252 (e)(5) of the Communications Act for Preemption of the Jurisdiction of the Virginia State Corporation Commission Regarding Interconnection Disputes with Verizon Virginia, Inc. and for Arbitration	)	CC Docket No. 00-249
In the Matter of Petition of AT&T Communications Virginia Inc., Pursuant to Section 252 (e)(5) of the Communications Act for Preemption of the Jurisdiction of the Virginia Corporate Commission Regarding Interconnection Disputes with Verizon Virginia, Inc.	)	CC Docket No. 00-251

REBUTTAL TESTIMONY OF MICHAEL R. BARANOWSKI, TERRY L. MURRAY, CATHERINE E. PITTS, JOSEPH P. RIOLO AND STEVEN E. TURNER

ON BEHALF OF AT&T AND WORLDCOM, INC.

August 27, 2001

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I. INTRODUCTION AND SUMMARY

Q. WHO ARE THE MEMBERS OF THE WITNESS PANEL SPONSORING THIS TESTIMONY?

A. The members of this panel are Michael R. Baranowski, Terry L. Murray, Catherine E. Pitts, Joseph P. Riolo and Steven E. Turner.

Q. WHAT ROLE DID EACH MEMBER OF THIS PANEL PLAY IN THE PREPARATION OF THIS TESTIMONY AND THE ASSOCIATED STUDIES?

A. Although all members of this Panel have reviewed and support this testimony, each Panel member assumed primary responsibility for specific segments of the testimony. Each Panel member relies on the facts and analyses developed by the other Panel members in their areas of primary responsibility. Specifically:

(1) Michael R. Baranowski addresses Verizon's testimony concerning the recurring costs associated with loops.

(2) Terry L. Murray addresses Verizon's testimony concerning the costs associated with Operations Support Systems.

(3) Catherine E. Pitts addresses Verizon's testimony concerning the recurring costs associated with unbundled local switching.

(4) Joseph P. Riolo addresses Verizon's testimony concerning network construct and technology assumptions for the recurring cost studies.

(5) Steven E. Turner addresses Verizon's testimony concerning the recurring costs associated with transport.

Q. ARE YOU THE SAME TERRY L. MURRAY, CATHERINE E. PITTS, JOSEPH P. RIOLO AND STEVEN E. TURNER WHO SUBMITTED DIRECT TESTIMONY IN THIS PROCEEDING ON JULY 31, 2001?

A. Yes, we are.

Q. DID YOUR DIRECT TESTIMONY CONTAIN A DESCRIPTION OF YOUR BACKGROUND AND EXPERIENCE?

A. Yes, it did.

Q. MR. BARANOWSKI, PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Michael R. Baranowski. I am Managing Director of FTI Klick, Kent & Allen, Inc., a subsidiary of FTI Consulting, Inc. ("FTI/KKA"). FTI/KKA is an economic and financial consulting firm with offices at 66 Canal Center Plaza, Suite 670, Alexandria, Virginia 22314.

Q. MR. BARANOWSKI, PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL EXPERIENCE.

A. After receiving a Bachelor of Science in Accounting from Fairfield University in 1980, I joined the consulting firm of Wyer, Dick and Company in Livingston, New Jersey. Since that time, I have been continuously involved in cost analyses, including analyses of short-run and long-run marginal costs, short-run and long-run incremental costs, and stand-alone costs for a variety of industries. These studies often employ complex, computer-driven models that rely upon detailed engineering input data and sophisticated discounted-cash-flow techniques. The results of many of these studies have been submitted in administrative proceedings, in court, and in arbitrations. Since 1996, I have been assisting

AT&T, WorldCom, and other CLEC's in analyzing cost evidence submitted in various proceedings arising out of the Telecommunications Act of 1996.

Q. MR. BARANOWSKI, PLEASE SUMMARIZE YOUR RECENT TELECOMMUNICATIONS EXPERIENCE THAT IS RELEVANT TO THIS PROCEEDING.

A. I have been either directly or indirectly involved in the presentation of forward-looking economic costs for unbundled network elements ("UNE's") in a number of jurisdictions, including Colorado, the District of Columbia, Idaho, Iowa, Maryland, Minnesota, Montana, Nebraska, New Mexico, North Carolina, North Dakota, Oregon, South Dakota, Texas, Washington, and Wyoming. We have participated in Universal Service Fund proceedings in Alabama, Colorado, Florida, Georgia, Minnesota, Montana, New Mexico, North Carolina, South Carolina, and Washington. I also have been directly involved in critiques of cost studies submitted by Verizon/Bell Atlantic in Delaware, the District of Columbia, Maryland, Massachusetts, New York, New Jersey, Pennsylvania, Virginia, and West Virginia. I also have been either directly or indirectly involved in critiques of cost studies presented by GTE in California, Iowa, Minnesota, Nebraska, New Mexico, Oregon, Texas, and Washington; submitted testimony in Texas on Southwestern Bell's cost studies; and critiqued the Benchmark Cost Proxy Model ("BCPM") in numerous states. Finally, I have assisted AT&T and WorldCom/MCI in developing a methodology to be used to determine forward-looking costs for collocation, which was presented in the states of Alabama, Florida, Georgia, Louisiana, Maryland, Minnesota, New York, North Carolina, and Tennessee. I submitted testimony on the AT&T/MCI Collocation Cost Model

in Pennsylvania. I also was personally involved on behalf of both AT&T and WorldCom/MCI in the initial Virginia UNE proceeding (Case PUC 970005) before the Virginia State Corporation Commission ("SCC"). I am intimately familiar with both the cost studies submitted by BA-VA (now Verizon Virginia) in that proceeding and the shortcomings of those studies identified by the SCC.

I also have had relevant experience in other "network industries," including the railroad, pipeline, and trucking industries.

Q. WHAT IS THE PURPOSE OF THIS PANEL'S TESTIMONY?

A. We have been asked by AT&T[1] and WorldCom to review the cost models submitted on July 2, 2001 by Verizon Virginia ("Verizon")[2] in this proceeding relevant to recurring charges, to identify violations of the FCC's TELRIC costing principles, and, where practical, to correct and restate the Verizon cost study results. In addition, we have been asked to review and respond to certain issues raised in the Panel direct testimony of Verizon's witnesses Donald Albert, Ralph Curbelo, Joseph Gansert, Nancy Matt, Louis Minion, Carlo M. Peduto II, Gary Sanford, and John White (hereinafter "Verizon Panel Direct").

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[1] The AT&T entities sponsoring this Direct Testimony are AT&T Communications of Virginia, Inc., TCG Virginia, Inc., ACC National Telecom Corp., MediaOne of Virginia and MediaOne Telecommunications of Virginia, Inc. (together, "AT&T").

[2] Throughout this testimony, we will refer to Verizon-Virginia simply as Verizon, except where necessary to distinguish it from other Verizon entities.

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. Based on our detailed review of the Verizon Virginia cost studies, we conclude that those studies suffer a number of violations of TELRIC principles which in combination, produce grossly overstated UNE recurring rates. These TELRIC violations range in scope from a blind acceptance of the embedded outside plant network configuration[3] to the use of utilization factors that are far too low. In essence, Verizon's cost study reproduces much of Verizon's own embedded network and thus depriving the network of efficiencies available under properly developed forward-looking TELRIC costs. In addition, the studies suffer a number of logic flaws that result in overstated UNE costs. Correcting these TELRIC violations and logic flaws where possible[4] and restating the Verizon cost studies produces forward-looking rates for UNEs that are far more realistic and will more likely result in robust and long overdue competition for local telephone service in Virginia.

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[3] *See* Shelanski Direct at 6.

[4] As we describe in more detail below, certain of the flaws in Verizon's study cannot be remedied because of access limitations within the cost study models and lack of sufficiently detailed data. Thus, even our restated Verizon rates are, by definition, not TELRIC.

To demonstrate the amount by which Verizon's proposed rates are overstated, Table 1 compares Verizon's proposed UNE rates for a number of key elements to the AT&T/WorldCom restated results supported in this panel testimony and that of other AT&T/WorldCom witnesses. A complete summary of all of the AT&T/WorldCom restated recurring rates is included as Attachment 1 to this testimony.[5]

Table 1

Summary of Restatement of Key Unbundled Network Elements

Element	Verizon	AT&T/WCOM Restated Verizon	% Verizon Overstated
2-Wire Loop Dens Cell 1	$19.49	$5.13	280%
2-Wire Loop Dens Cell 2	$29.69	$7.54	294%
2-Wire Loop Dens Cell 3	$48.93	$12.07	305%
2-Wire Loop Statewide	$25.12	$6.46	289%
Switch Usage - Originating	$0.002703	$0.000111	2,335%
Switch Usage – Terminating	$0.002374	$0.000099	2,298%
Switch Port	$3.15	$1.19	165%
Common Transport (Fixed)	$0.000099	$0.000055	80%
Common Transport (Per Mile)	$0.000002	$0.000001	100%

In addition to substantially exceeding properly developed TELRIC costs, the UNE rates proposed by Verizon far exceed the proxy rates established by the FCC in the first UNE proceeding.

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[5] Workpapers supporting our restatement of Verizon's recurring costs are being provided (footnote continued)

II. VERIZON COST MODEL OVERVIEW

Q. PLEASE BRIEFLY DESCRIBE THE VERIZON COST STUDY.

A. Verizon's loop cost study consists of a series of computer applications bundled within an Oracle software-based interface. Loop costs are processed through a loop cost analysis model ("LCAM"), which is an amalgam of multiple programming modules. A brief description of each module is set forth below.[6]

Plant Characteristics Module: This module uses preloaded information from an old survey conducted by Verizon engineers to produce average feeder and distribution loop lengths and typical cable sizes for each wire center. Cable material and labor cost inputs to the Plant Characteristics Module are based on a separate Verizon system named the Vintage Retirement Unit Cost ("VRUC") system, which Verizon asserts contains installed cable costs from projects undertaken by Verizon from 1997 through 1999.

Electronics Module: The electronics module develops investment costs for Next Generation Digital Loop Carrier ("NGDLC") hardware and common equipment for transmission of the voice grade signal over fiber facilities. Fiber feeder facilities provisioned with NGDLC are placed when the feeder loop length exceeds certain thresholds. For Verizon's cost study, the threshold is **[Begin**

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electronically on a CD filed with this testimony.

[6] These Verizon cost models develop certain of the UNE costs based on unit costs from Maryland instead of Virginia. Verizon provides no explanation of why Maryland unit costs are used. We have, in our restatement of Verizon's cost, changed these UNE to reflect Virginia unit costs.

Verizon Proprietary] * [End Verizon Proprietary].** The electronics module sizes electronic equipment for each Verizon customer serving area based on the number of working lines reported by Verizon.

Loop Study Module: This module reads and summarizes the results of the Plant Characteristics and Electronics modules to produce the loop investment by wire center. The loop study module then combines the loop investment for each wire center with annual cost factor outputs that are generated by a separate Verizon model named the "VCost" Model. The cost results are then weighted by working lines to produce monthly recurring loop rates.

Q. WHAT IS THE VCOST MODEL?

A. The VCost model is a spreadsheet-based application run under the Oracle interface. It was developed by Verizon to produce annual cost factors ("ACFs") that are used to convert investments to annual costs, which are in turn converted to monthly costs by dividing by twelve.

Q. WHAT ACFS DOES VCOST PRODUCE?

A. VCost produces ACFs for depreciation, return on investment, income and property taxes, network operations expenses, support expenses, and miscellaneous marketing and administrative expenses.

Q. PLEASE PROVIDE AN OVERVIEW OF THE ORGANIZATION OF THE VERIZON COMPUTERIZED STUDY MODELS AND MODULES.

A. The Verizon cost programs are controlled by an Oracle software interface that allows analysts to modify certain of the inputs and assumptions within each of the program modules. The interface is difficult and cumbersome to work with and,

more importantly, the interface limits the ability of the analyst to trace the impact of changes to key cost model inputs.

Q. CAN YOU PROVIDE AN EXAMPLE OF THE DIFFICULTIES ASSOCIATED WITH ANALYZING THE VERIZON MODELS?

A. Yes. After the models are installed and properly functioning,[7] considerable effort is required to understand how the models interact within the interface and what inputs and assumptions drive the model results. Unlike a standard spreadsheet application that allows a user to simply highlight a cell and observe a specific formula, the Oracle interface for LCAM is not so transparent to users. It displays only a list of formulas within a given module of the program, without the ability to edit the formulas or to see the corresponding values that are calculated. In order to review a formula, the user must first locate the program variable name assigned to that component and then search for the formula. In most cases, the formulas themselves also include defined variable names, making tracing through the programs a time-consuming endeavor.[8] Further, because of other limitations imposed by the Oracle interface, intermediate model run results can be reviewed only at certain stages of the model run process.

In addition, while the model allows the user to edit formulas or to create new formulas in the individual modules, it has to be done through a special

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[7] Because the Verizon models are written in an older version of Oracle, a number of unorthodox procedures are necessary to get the models installed and running.

[8] Further complicating evaluation of the models is the fact that the Oracle interface restricts the user's ability to review multiple formulas simultaneously, making it more difficult to understand the flow of information throughout the process.

process within the interface. This process is also time-consuming and cumbersome, especially when multiple formulas need to be edited.[9]

Q. HAVE THE DIFFICULTIES THAT YOU ENCOUNTERED HINDERED YOUR ABILITY TO EFFECTIVELY EVALUATE THE MODEL?

A. Yes. The cumbersome process of editing formulas combined with the inability readily to modify multiple formulas makes evaluating the integrity of the model more difficult. While we have been able to find important errors in Verizon's model, there may be others that we have been unable to discern as a result of the cumbersome nature of the Oracle interface.

III. VERIZON'S LOOP COSTS

Q. FOR WHICH TYPES OF LOOPS DOES VERIZON COMPUTES COSTS?

A. Verizon uses the loop cost model to compute costs for several different types of loops, as described in the Verizon Panel testimony.[10] They are as follows:

- Two- and four-wire loops;
- Off-premises extension unbundled loops;
- ISDN/BRI (two-wire digital loops);
- Digital four-wire (56 and 64 Kbps) loops;
- Two- and four-wire customer-specified signaling loops;

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[9] During our review of the Verizon model, we identified a number of small calculation errors in the Verizon model formulas. These errors, which we have corrected, produced a slight overstatement of loop costs. Details of the errors and our corrections are included in our electronic workpapers.

- DS1/ISDN PRI loops;
- DS3 (high capacity) loops;
- XDSL-compatible loops
- Subloops; and
- Dark fiber loops.

Q. DOES YOUR ANALYSIS FOCUS ON ALL OF THE VARIOUS LOOP COSTS COMPUTED BY VERIZON?

A. Our analysis focuses primarily on Verizon's calculations of its two-wire loop costs. While I have also reviewed and restated certain of Verizon's advanced services loop and other proposed costs, because of limited access to Verizon discovery data and the difficulties working with Verizon's model that we described previously, we believe that our restatement falls short of producing the correct forward-looking costs of those services. In other words, our restated costs for advanced loops and other services are still overstated, although not as grossly as the costs initially presented by Verizon.[11]

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10 Verizon Direct Panel Testimony at 80.

11 Our analysis and restatement of Verizon's DS3, DS3 Subloop and High Capacity Loops were further hindered because Verizon produced electronic documentation for these elements as image files, void of any calculations. On August 22, more than 50 days after submitting its cost studies, Verizon provided one of these studies in a usable spreadsheet format. Response to AT&T/WorldCom #6-12.

A. ENGINEERING SURVEY

Q. IS VERIZON'S COST STUDY GROUNDED IN APPROPRIATE FORWARD-LOOKING ASSUMPTIONS FOR OUTSIDE PLANT INVESTMENT?

A. No. Verizon's "forward-looking" outside plant is actually based on a survey of its embedded network conducted by its outside plant engineers in the early 1990's. That survey data are then matched with more current information on the number of working lines within each customer serving area. Because they are based on the embedded plant construct, the Verizon "forward-looking" costs are not forward-looking at all. Rather, by relying on existing feeder and distribution routes and its embedded assignment of customers to existing distribution areas, Verizon has failed to recognize any meaningful efficiencies that would be available to a new entrant under the scorched-node environment contemplated by TELRIC. Simply put, relying on an embedded network configuration overstates costs.

Q. WHAT EVIDENCE IS THERE DEMONSTRATING THAT VERIZON RELIES ON ITS EMBEDDED NETWORK?

- A. The outside plant engineering surveys, **[Begin Verizon Proprietary] *** [End Verizon Proprietary]**

Thus, the cornerstone of Verizon's forward-looking outside plant is its embedded plant.

Q. IS THERE OTHER EVIDENCE THAT VERIZON'S FORWARD-LOOKING OUTSIDE PLANT IS REALLY ITS EMBEDDED PLANT?

A. Yes. Verizon itself readily acknowledges that its forward-looking outside plant is based on its embedded network. In a handout distributed by Verizon during its August 22, 2001 cost model demonstration meeting with the FCC, Verizon openly acknowledges that the LCAM is "an application designed to develop loop costs based on the framework of an actual network." For its cost study, the actual network forming the framework for the LCAM is Verizon's own Virginia embedded network.

Q. DOES VERIZON EVEN ACCURATELY CAPTURE THE COSTS OF ITS EMBEDDED PLANT?

A. Probably not. According to the survey instruction materials produced by Verizon in discovery, **[Begin Verizon Proprietary] *** [End Verizon Proprietary]** As a result, the survey results likely do not accurately capture the characteristics of the embedded plant structure.

Q. WHY DOES IT MATTER THAT VERIZON HAS BASED ITS LOOP COST STUDY ON LOOP LENGTH INFORMATION FROM ITS EMBEDDED NETWORK?

A. Basing a loop cost study on embedded base information violates TELRIC principles and simply does not make sense for a least-cost network configuration that an efficient, competitive company would build today. For example, engineers typically construct underground conduit systems along no-cost public rights-of-way adjacent to or within roadway rights-of-way. If a large tract of land was undeveloped 25 years ago, when Verizon engineered its feeder route, it might have placed conduit around the perimeter of the tract. Today, roadways lace that

tract of land, and an efficient company would place conduit using a shorter distance – along the roadways that cross the tract.

Q. HAS VERIZON DEMONSTRATED THAT ITS EXISTING ROUTE CONFIGURATION IS THE MOST EFFICIENT ROUTE CONFIGURATION?

A. No. Verizon has offered no evidence whatsoever that the loop lengths and amount of outside plant that underlie its cost study reflect an efficient, forward-looking network. We asked Verizon in discovery to provide copies of all documents relating to the survey of outside plant characteristics. In response, Verizon provided only a copy of the instructions to the survey engineers.[12] Verizon did not provide key source documents relied upon by survey engineers such as plats, network diagrams, customer location information, maps, or other materials necessary to effectively determine if the embedded network is the appropriate starting point for the forward-looking network design. We were thus unable to determine if the route configuration included in the survey data represents the most efficient, forward-looking routing. While we believe that Verizon's reliance on its embedded network produces overstated loop costs, there is no way to quantify the level of this overstatement without the requested information.

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[12] Verizon Response to Request AT&T/WCOM #1-34.

Q. HAVE YOU ADJUSTED VERIZON'S LOOPS COSTS AS A RESULT OF ITS RELIANCE ON ITS EXISTING ROUTE CONFIGURATION?

A. No. Because there is no way to quantify the extent to which Verizon has overstated costs as a result of its reliance on its existing route configuration, we have not included any such adjustment in our restatement of loop costs – even though a significant downward adjustment is almost certainly warranted. Of course, the impossibility of properly adjusting Verizon's cost model to account for its reliance on its existing route configuration is one reason that the Commission should not rely on that model but instead should reject Verizon's cost model entirely.

Q. ARE THERE ANY OTHER WAYS IN WHICH VERIZON'S USE OF ITS EMBEDDED NETWORK LIKELY OVERSTATES LOOP COSTS?

A. Yes. Verizon's method matches current working line count information by customer service area ("CSA") and distribution area ("DA") with the survey data and uses that information to model the size and type of digital loop carrier electronics and the size of distribution plant cable. The working line counts are also aggregated by wire center and used to weight loop costs by density zone. By matching working lines with survey data instead of looking at actual customer locations, Verizon's approach virtually guarantees that its so-called "forward-looking" network will virtually replicate the embedded facility. In addition, the data provided by Verizon in support of its working line counts suggests that the line working line counts used by Verizon to match with the survey data may very well be understated. All other things being equal, understating the number of working lines overstates loop costs.

Q. DOES THE USE OF EXISTING CSA BOUNDARIES INTRODUCE INEFFICIENCIES IN THE VERIZON COST STUDY?

A. Yes. By using existing CSA and DA boundaries Verizon is likely not taking advantage of the efficiencies available with today's DLC technology.

Q. PLEASE EXPLAIN.

A. The smallest size DLC remote terminal ("RT") used in the Verizon study has a 224-line capacity. Many of the DAs in the Verizon service territory contain fewer than 50 lines. Verizon's cost study includes a total of 8,795 DAs for its Virginia service territory. Of these, approximately 1,362, or 15%, have fewer than 50 working lines. Verizon's cost study assumes 1,123 of these fewer than 50-line DAs will be served with 224-line capacity DLC equipment. The average DLC utilization for these 1,123 DAs is a scant ten percent.

Q. COULD THIS BE AVOIDED IN A FORWARD-LOOKING NETWORK?

A. Yes. A more efficient approach would be to regroup DAs based on actual customer locations in order to achieve higher utilization of expensive DLC equipment, thereby reducing overall UNE costs. Unfortunately, the cost studies presented by Verizon do not allow for such consolidation. The line counts by DA are an input to the model that cannot be altered. As a general matter, these inefficiencies cannot be corrected and are carried forward in our restatement of Verizon's loop costs. As a result, despite other adjustments and corrections we propose, Verizon's models cannot be made TELRIC compliant.

Q. YOU MENTIONED THAT VERIZON MAY WELL UNDERSTATE THE NUMBER OF LOOPS IN ITS NETWORK. WHAT IS YOUR BASIS FOR THIS STATEMENT?

A. The loop costs developed within the Verizon LCAM model are based on a total of **[BEGIN VERIZON PROPRIETARY] *** [END VERIZON PROPRIETARY]** working lines. The source of this working line count is not clear from the documentation provided by Verizon. In contrast, the Verizon Loop Analysis Reporting and Tracking ("LART") database identifies a total of **[Begin Verizon Proprietary] *** [End Verizon Proprietary]** working lines in the Verizon Virginia service territory, while the Loop Engineering Assignment Data ("LEAD") database shows a total of **[Begin Verizon Proprietary] *** [End Verizon Proprietary]** working lines.

Q. WHY IS THE NUMBER OF WORKING LINES AN ISSUE IN THE DEVELOPMENT OF FORWARD-LOOKING LOOP COSTS?

A. Because of the economies of scale associated with outside plant investment, the number of lines over which outside plant investment is spread plays a critical role. Generally, the greater the concentration of lines in a given UAA, the lower the average cost per line of cable and outside plant structure (i.e., poles and conduit), because the investment is spread over more lines. By using the lowest of the available counts of working lines, it is likely that Verizon has overstated loop costs by failing to capture all of the available economies of scale that exist today.

Q. ARE YOU ABLE TO ADJUST THE LINE COUNTS IN THE VERIZON COST STUDY TO BETTER REFLECT SUCH ECONOMIES OF SCALE?

A. No. First, it is not clear from the Verizon data which count of working lines is correct. Second, the Oracle interface in which the Verizon cost models are run

does not allow the user to modify the line counts used in the cost models. Thus, any adjustment to reflected added efficiencies must be done outside of the Verizon cost model. However, we have not included any such adjustment in our restatement of Verizon's costs, although such an adjustment seems justified.

B. DIGITAL LOOP CARRIER SYSTEMS

1. UDLC V. IDLC

Q. WHAT ASSUMPTIONS DOES THE VERIZON STUDY MAKE REGARDING DIGITAL LOOP CARRIER INTERFACE?

A. Verizon's two-wire loop costs include a subjective fiber-copper breakpoint above which loops are provisioned with fiber feeder and digital loop carrier technology. Verizon's cost study assumes that 82 percent of loops will use DLC, with approximately 70 percent of those loops provisioned with an integrated interface and the remaining 30 percent provisioned with older and less efficient universal interface.

Q. IS VERIZON'S DLC ASSUMPTION OF 30% UNIVERSAL INTERFACES THE APPROPRIATE FORWARD-LOOKING CONSTRUCT?

A. No. TELRIC requires that Verizon's forward-looking economic costs provide UNEs based upon a least cost, forward-looking network. In this case, least cost, forward-looking technology means an integrated DLC ("IDLC") interface at the DS1 level for those loops exceeding the fiber/copper threshold and provisioned with fiber feeder. It does not mean deploying less efficient analog Universal DLC ("UDLC") interfaces and penalizing CLECs for connecting to Verizon's outdated embedded infrastructure.

Q. WHAT ARE THE DIFFERENCES BETWEEN UDLC AND IDLC?

A. In a UDLC system, analog signals originating from a customer's telephone are converted into a digital signal at a Remote Terminal ("RT") and transported by the digital carrier system to the Central Office Terminal ("COT"). At the COT, the signal is converted from digital to analog and is then terminated on the Main Distribution Frame ("MDF"). Since virtually all switches deployed today are digital, the analog signal from the MDF must be cabled to the Analog Port of the switch, where the signal is converted once again into digital format so that it can be processed by the digital switch. The UDLC system is a less-than-efficient technology for several reasons. The back-to-back digital/analog conversions are inefficient, cumbersome and degrade transmission quality; and this impairment to the channel will increase as advanced modem technology challenges the capability of the network. In addition, the multiple signal conversions require additional line cards and other equipment. Further, there is an increased risk of equipment failure caused by the MDF cross-connect activity.

In stark contrast, in an IDLC system, the analog signal generated at the customer's telephone is converted to digital form at the RT. The digital signal is transported by the digital carrier system to the Central Office and terminated directly to the switch without any need for further conversion. The integration of digital switching and digital transmission facilities in an IDLC System generates substantial operational and equipment savings, including:

- the elimination of digital/analog conversion at the COT;